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TACOMA PUBLIC UTILITIES

September 19, 2014

VIA EMail

Tech Forum
Bonneville Power Administration
PO Box 491
Vancouver, WA 98666
techforum@bpa.gov

Re: Tacoma Power's comments Intertie Transmission

Tacoma Power appreciates the opportunity to comment to BPA about the rates and terms of service for southern intertie transmission to California. Tacoma Power would also like to thank Powerex for its diligent investigation of what is occurring with respect to the southern intertie and for sharing the results of its investigation with the region's stakeholders. It represents a transmission and power marketing matter of significant consequence.

Tacoma Power has participated in various recent BPA workshops where the results of a study prepared by FTI Consulting have been presented and discussed by regional stakeholders. The study suggests that following the 2009 market redesign and technology upgrade (MRTU) by the California Independent System Operator (CAISO), long-term transmission rights providing firm transmission capacity from the Northwest to California have been devalued. It explains the devaluation as a function of CAISO's post-MRTU rules and practices. By ignoring the allocation of transmission rights on adjacent transmission systems, location specific energy markets along CAISO's borders can clear at comparatively lower prices relative to both historic levels and prices internal to CAISO's transmission system, namely power traded at NP15 and SP15.

With only a few minor caveats, Tacoma Power generally accepts the analysis in FTI's study. It is very well reasoned. Also, the study aligns with Tacoma Power's own experience as a small transmission capacity rights owner of the 3rd AC southern intertie. In 2011, Tacoma Power discontinued its day-ahead marketing strategy and assigned its transmission rights to a third party as it no longer saw sustained value in continuing the practice.

The energy markets of California are extremely consequential to the Northwest power system. As a region that generates most of its energy with resources that vary in output minute-by-minute, season-by-season and year-by-year, having fair access to a robust external market enables an economic balancing of the Northwest generation portfolio. California has historically provided this market to the benefit of both regions. As a result, it is very troubling that CAISO, through implementation of the MRTU, has unilaterally shifted most

of the benefits of inter-regional energy trade to California and away from entities that have invested in the transmission infrastructure supporting the trade.

Some stakeholders suggest that because CAISO's location specific pricing represents a functioning market, its pricing results should prevail over competing value considerations, such as those of long-term firm transmission rights holders on the southern intertie. We question this assertion on a number of grounds. One is whether CAISO's rules and practices are consistent with reliable system operations. On December 5th, 2013, BPA presented a study (<http://www.bpa.gov/transmission/CustomerInvolvement/ACS/Documents/BP-16-Workshop-120513.pdf>) showing that from January 2012 to September 2013, 81% of curtailed energy from generation sourced in the BPA control area was instructed by non-BPA transmission service providers. Later, the study showed that 65% of this curtailed energy was destined for the CAISO control area. This suggests that CAISO is responsible for significantly more curtailments to Northwest generation than BPA's transmission network, southern intertie, or even its implementation of Dispatcher Standing Order 216 (DSO 216).

One proposed tool to restore the value of long-term firm transmission rights holders on the southern intertie is to increase the price of non-firm transmission service to California. This may prove to be a reasonable approach; however, we are mindful of BPA's obligation to provide transmission service in a manner that is not unduly preferential so we urge BPA to pursue this course only if a nondiscriminatory basis for making this change can be fully developed. Until such time, BPA might be best served by exploring different power marketing strategies or working with CAISO to more fairly recognize the value of transmission assets required to move energy to California. One possibility would be to strengthen CAISO's resource sufficiency standard by requiring an OASIS Assignment Reference number for external day-ahead bids into the CAISO market.

Finally, Tacoma Power would like to thank BPA and all stakeholders for their efforts and shared insight with respect to the southern intertie.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nicolas Garcia', followed by a long horizontal line extending to the right.

Nicolas Garcia
Assistant Power Manager